

INDIANA PORT COMMISSION

FINANCIAL STATEMENTS

December 31, 2005 and 2004

INDIANA PORT COMMISSION
Indianapolis, Indiana

FINANCIAL STATEMENTS
December 31, 2005 and 2004

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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

The Members of the Commission
Indiana Port Commission
Indianapolis, Indiana

We have audited the accompanying statements of net assets of the Indiana Port Commission as of December 31, 2005 and 2004, and the related statements of revenues and expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Indiana Port Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indiana Port Commission as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2006, on our consideration of the Indiana Port Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Indiana Port Commission taken as a whole. The accompanying Schedule of Port Income from Operations, Schedule of Operating Expenses Compared to Budget, and the Schedule of Expenditures of Federal Awards, which is presented for purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules of have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Indianapolis, Indiana
March 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2005

This section of the Port's annual financial report presents a discussion and analysis of the Commission's financial performance for the calendar year ended December 31, 2005. Please read it in conjunction with the Commission's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The Commission's net assets increased by approximately \$669,000. Operating income before depreciation was approximately \$2,726,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements and reports on compliance and internal control over financial reporting.

The Commission's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Commission are included in the Statement of Net Assets.

The financial statements provide both long and short-term information about the Commission's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED DECEMBER 31, 2005

FINANCIAL ANALYSIS

Net Assets

The Commission's total assets at December 31, 2005, reached approximately \$89,862,000. This represents an increase of \$986,000 or 1.11 percent from the prior year. Total liabilities amounted to \$1,160,000; an increase of \$317,000 or 37.62 percent and total net assets amounted to \$88,702,000, an increase of \$669,000 or .76 percent (See Table 1).

Table 1 Net Assets			
	<u>2005</u>	<u>2004</u>	<u>Percentage Change</u>
Assets:			
Current assets	\$ 14,139,401	\$ 13,562,466	4.25%
Property	74,498,198	73,970,750	7.00%
Other assets	<u>1,224,381</u>	<u>1,342,357</u>	<u>(8.78)%</u>
Total assets	<u>89,861,980</u>	<u>88,875,573</u>	<u>1.10%</u>
Liabilities:			
Current liabilities	1,123,178	793,205	41.59%
Non-current liabilities	<u>36,379</u>	<u>49,351</u>	<u>(26.28)%</u>
Total liabilities	<u>1,159,557</u>	<u>842,556</u>	<u>37.62%</u>
Net assets:			
Invested in capital assets	<u>75,722,579</u>	<u>75,313,107</u>	<u>.54%</u>
Reserved for security equipment and infrastructure protection	<u>-</u>	<u>1,173,010</u>	<u>(100.00)%</u>
Unrestricted:			
Designated	10,800,000	10,800,000	0.00%
Undesignated	<u>2,179,844</u>	<u>746,900</u>	<u>191.85%</u>
Total net assets	<u>88,702,423</u>	<u>88,033,017</u>	<u>.76%</u>
Total liabilities and net assets	<u>\$ 89,861,980</u>	<u>\$ 88,875,573</u>	<u>1.10%</u>

INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED DECEMBER 31, 2005

Changes in Net Assets

The change in net assets at December 31, 2005, was an increase of \$669,000 or .76 percent. The Commission's total operating revenues increased by approximately \$322,000 or 5.01 percent. Total operating expenses increased \$40,000 or .99 percent. The changes in net assets are detailed in Table 2 and operating expenses are detailed in Table 3.

<p style="text-align: center;">Table 2 Changes in Net Assets</p>			
	<u>2005</u>	<u>2004</u>	<u>Percentage</u> <u>Change</u>
Operating Revenues:			
Maritime Services	\$ 6,535,340	\$ 6,240,162	4.73%
Other	<u>209,271</u>	<u>182,836</u>	<u>14.46%</u>
Total operating revenues	<u>6,744,611</u>	<u>6,422,998</u>	<u>5.01%</u>
Operating Expenses:			
Operating Expenses	4,019,097	3,979,550	.99%
Depreciation	<u>2,438,594</u>	<u>2,385,584</u>	<u>2.45%</u>
Total Operating Expenses	<u>6,457,691</u>	<u>6,365,134</u>	<u>1.45%</u>
Operating income gain/(loss)	286,920	57,864	395.85%
Non-operating revenues (expenses)	382,486	335,445	14.00%
Capital revenues from state and private programs	<u>-</u>	<u>2,239,503</u>	<u>(100.00)%</u>
Change in net assets	669,406	2,632,812	(74.57)%
Total net assets, beginning of year	<u>88,033,017</u>	<u>85,400,205</u>	
Total net assets, end of year	<u><u>\$ 88,702,423</u></u>	<u><u>\$ 88,033,017</u></u>	<u>.76%</u>

INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED DECEMBER 31, 2005

Revenues: Operating revenues from Maritime Services increased by \$295,000 or 4.73 percent. This increase resulted from new tenants at the ports and an increase in tonnage moving across the docks at all locations. The Ports surpassed last year's tonnage by 2% mainly due to the new Transit Shed Operating agreement at Southwind.

Non-operating revenues (expenses) have increased approximately \$334,000 or 99.56 percent. Within this category, interest income from investments increased approximately \$75,000 or 22.3 percent because of rising interest rates.

Appropriations for specific capital projects are made to the Commission by the legislature of the State of Indiana. The Commission then receives approval and the allocation of the funds from the State Budget Agency. Once the funds have been allotted, the Commission may request reimbursement of funds disbursed in connection with the specific project. During the current year, the Commission did not receive reimbursements from the State Budget Agency.

Expenses: Total operating expenses increased \$92,000 or 1.45 percent. Operating expenses, not including depreciation, increased .99 percent, primarily due to temporary hired services in accounting and legal departments. The small increase in depreciation expense corresponds with the amounts of projects completed and capitalized within the last few years.

There are three accounts with significant variances from the prior year which management believes warrant a more detailed explanation. They are legal services, other professional services, insurance and maintenance expense.

- Legal services increased 282.2 percent, or \$85,000. During 2005, we received consultant assistance in the form of preparation and review of documents relating to our Bond Issues, personnel and other executive guidance.
- Security Services increased 83.4 percent, or \$112,000 due to a new port security service at Burns Harbor.
- Other professional services decreased 49.7 percent, or \$96,000. During 2004, economic development research and statistical projects were continued regarding the two business initiatives granted to the Commission by the state legislature.

INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED DECEMBER 31, 2005

Operating expenses are summarized as follows:

Table 3			
Operating Expenses			
	<u>2005</u>	<u>2004</u>	<u>Percentage</u>
			<u>Change</u>
Labor and Fringe Benefits	\$ 2,390,788	\$ 2,371,158	.83%
Travel and Training	137,315	185,183	(25.85)%
Security Services	245,451	133,862	83.36%
Legal Services	115,069	30,105	282.23%
Accounting Services	24,000	24,900	(3.61)%
Computer Services	18,685	30,969	(39.63)%
Other Professional Services	99,046	196,747	(49.66)%
Advertising and Public Relations	96,925	85,153	13.82%
Insurance	250,093	252,893	(1.11)%
Property Rentals	95,204	87,869	8.35%
Office Expenses	128,481	139,556	(7.94)%
Business Association			
Memberships	60,802	56,778	7.09%
Utilities	103,847	91,252	13.80%
Maintenance	210,152	253,650	(17.15)%
Bad Debts	-	29,815	(100.00)%
Other	43,248	9,660	347.60%
Depreciation	<u>2,438,594</u>	<u>2,385,584</u>	<u>2.22%</u>
Total Operating Expenses	<u>\$ 6,457,700</u>	<u>\$ 6,365,134</u>	<u>1.45%</u>

**INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2005**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2005, the Commission had invested \$74,498,000 in capital assets and related assets, net of accumulated depreciation. As compared to the prior year, this amount represents a net increase (including additions and disposals) of \$528,000.

There is no outstanding debt other than construction related payables of \$721,000 and \$385,000 at December 31, 2005 and 2004.

CURRENTLY KNOWN FACTS

Other than the uncertainty of general economic indicators on the Commission and its customers, there are no significant facts, decisions or conditions that are expected that management believes will have a significant impact on the financial position or results of operations.

* * * * *

This financial report was designed to provide our stakeholders, patrons, and other interested parties with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Commission at (317) 232-9200.

INDIANA PORT COMMISSION
STATEMENTS OF NET ASSETS
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 5,984,604	\$ 5,542,160
Investments (Note 2)	4,514,914	5,000,195
Accrued interest receivable	103,505	70,768
Trade accounts receivable, net	526,522	640,594
Notes receivable	870,888	1,015,614
Grants receivable	891,034	-
Other receivables	1,054,575	1,055,235
Prepaid expenses	<u>193,359</u>	<u>237,900</u>
Total current assets	<u>14,139,401</u>	<u>13,562,466</u>
Property and equipment (Note 3)	122,945,895	119,979,853
Accumulated depreciation	<u>(48,447,697)</u>	<u>(46,009,103)</u>
	74,498,198	73,970,750
Long-term net investment in direct financing leases (Note 4)	<u>1,224,381</u>	<u>1,342,357</u>
	<u>\$ 89,861,980</u>	<u>\$ 88,875,573</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and other accrued expenses	\$ 388,748	\$ 396,708
Contracts and retainage payable	721,458	384,275
Accrued litigation expense	<u>12,972</u>	<u>12,222</u>
Total current liabilities	1,123,178	793,205
Other liabilities		
Long-term accrued litigation expense	<u>36,379</u>	<u>49,351</u>
Total liabilities	1,159,557	842,556
Net Assets		
Invested in capital assets	75,722,579	75,313,107
Restricted for security equipment and infrastructure	-	1,173,010
Unrestricted:		
Designated	10,800,000	10,800,000
Undesignated	<u>2,179,844</u>	<u>746,900</u>
	<u>88,702,423</u>	<u>88,033,017</u>
	<u>\$ 89,861,980</u>	<u>\$ 88,875,573</u>

See accompanying notes to financial statements.

INDIANA PORT COMMISSION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues		
Maritime services	\$ 1,937,415	\$ 2,070,461
Facility rentals and storage	4,079,955	3,754,241
User fees	420,220	415,460
Foreign trade zone fees	97,750	97,063
Other	<u>209,271</u>	<u>85,773</u>
	6,744,611	6,422,998
 Operating expenses before depreciation	 <u>4,019,097</u>	 <u>3,979,550</u>
 Operating income before depreciation	 2,725,514	 2,443,448
 Depreciation expense	 <u>2,438,594</u>	 <u>2,385,584</u>
 Operating income (loss)	 286,920	 57,864
 Non-operating revenues (expenses)		
Net interest income	408,486	333,945
Gain on property dispositions	2,877	1,500
Other income (expense)	<u>(28,877)</u>	<u>-</u>
	382,486	335,445
 Income before capital contributions	 669,406	 393,309
 Capital contributions	 <u>-</u>	 <u>2,239,503</u>
 Change in net assets	 669,406	 2,632,812
 Net assets, at beginning of year	 <u>88,033,017</u>	 <u>85,400,205</u>
 Net assets, at end of year	 <u>\$ 88,702,423</u>	 <u>\$ 88,033,017</u>

See accompanying notes to financial statements.

INDIANA PORT COMMISSION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 6,858,683	\$ 6,277,865
Payments to suppliers	(1,704,050)	(1,630,094)
Payments to employees	(1,913,705)	(1,809,357)
Payments of benefits on behalf of employees	<u>(364,761)</u>	<u>(576,155)</u>
Net cash provided by operating activities	2,876,167	2,262,259
Cash flows from capital and related financing activities:		
Contributed capital from state government and others	(26,514)	2,239,503
Proceeds from direct financing leases	117,978	110,405
Proceeds on notes and other receivables	(745,648)	40,101
Payments on litigation settlement	(12,222)	(11,514)
Expenditures for acquisitions and construction of capital assets	<u>(2,628,340)</u>	<u>(4,836,564)</u>
Net cash provided by (used in) capital and related financing	(3,294,746)	(2,458,069)
Cash flows from investment activities:		
Purchase of investments	(4,514,914)	(5,000,000)
Proceeds from sales and maturities of investments	5,000,195	5,014,412
Investment income received	<u>375,742</u>	<u>385,296</u>
Net cash provided by investment activities	<u>861,023</u>	<u>399,708</u>
Net increase (decrease) in cash and cash equivalents	442,444	203,898
Cash and cash equivalents, beginning of year	<u>5,542,160</u>	<u>5,338,262</u>
Cash and cash equivalents, end of year	<u>\$ 5,984,604</u>	<u>\$ 5,542,160</u>
Reconciliation of loss from operations to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 286,920	\$ 57,864
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation	2,438,594	2,385,584
Changes in assets and liabilities relating to operating activities:		
Accounts receivable	114,072	(145,133)
Accounts payable	(7,960)	(70,493)
Prepaid expenses	<u>44,541</u>	<u>34,437</u>
Net cash provided by operating activities	<u>\$ 2,876,167</u>	<u>\$ 2,262,259</u>

2005 and 2004 Noncash activities: The Indiana Port Commission had contracts and retainage payable on capital assets of \$721,458 and \$384,277 at December 31, 2005 and 2004.

See accompanying notes to financial statements.

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Indiana Port Commission (Commission) is a body both Corporate and Politic created under Indiana Code Section 8-10-1-3 enacted by the General Assembly of the State of Indiana. The Commission is authorized to construct, maintain and operate public ports with terminal facilities and traffic exchange points for all forms of transportation on Lake Michigan and the Ohio and Wabash Rivers. The Commission consists of seven members appointed by the Governor. Accordingly, it is a component unit of the State of Indiana. Operating funds are derived from port activities, however, the majority of capital funds are provided by the state and the federal government.

The Commission's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements include all the accounts of the Commission and its subsidiary, The Indiana Ports Railroad Holding Corporation (Railroad Holding Corporation). The Railroad Holding Corporation is a not-for-profit entity, which is the parent of the wholly owned subsidiaries of Clark Shortline Railroad Co., Burns Harbor Shortline Railroad Co., and Southwind Railroad Co. The Railroad Holding Corporation is currently inactive.

Measurement Focus, Basis of Accounting and Financial Reporting: The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America as applicable to governments. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Commission accounts are organized into a single proprietary fund. The Commission's operations are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing services on a continuing basis be financed and recovered primarily through user charges. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services or leasing property. Operating expenses include the cost of providing services, administrative services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The Commission has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

Cash Equivalents: Cash equivalents consist of short-term, liquid investments which are readily convertible into cash or which have maturity of 30 days or less.

Trade Accounts Receivable and Deferred Income: Operating revenues include rental income derived from leasing port property. Amounts due from certain lease agreements are billed in advance and recognition of related revenue is deferred and recognized over the appropriate lease term service period. Trade receivables are reported at an amount that is net of advance billings of \$380,212 and \$358,000 at December 31, 2005 and 2004.

Allowance For Uncollectible Accounts: The allowance for uncollectible accounts is determined by management based upon historical losses, specific circumstances and general economic conditions. Periodically, management reviews accounts receivable and records an allowance based on current circumstances, and charges off the receivable against the allowance when all attempts to collect the receivable are deemed to have failed in accordance with collection policy. A year-end allowance for uncollectible accounts receivable of \$0 was recorded at December 31, 2005 and 2004.

Property and Equipment: Property and equipment are stated at cost, or fair market value at date of gift, if donated. Depreciation is charged as an operating expense using the straight-line method over the estimated useful lives of the respective assets. Construction in progress consists of the costs of construction contracts and direct engineering costs incurred in the design and construction of port properties. Projects are capitalized when substantially complete.

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land and harbor improvements consist of both depreciable and non-depreciable types of assets. Infrastructure assets are capitalized. Estimated useful lives used in computing depreciation on property and equipment are as follows:

	<u>Years</u>
Land improvements	5 - 50
Harbor improvements	25 - 40
Dock and mooring facilities	10 - 40
Buildings and structures	5 - 30
Machinery and equipment	5 - 20
Office furniture and equipment	5 - 10
Trucks and autos	5

Appropriations from the State of Indiana: Appropriations are made by the legislature of the State of Indiana on a biennial basis. The Commission typically has four years in which to obtain the State Budget Agency's approval and allotment. Once funds are allotted, the Commission must submit claims for the State Budget Agency's payment. The Commission records as a receivable in the financial statements only those claims that have been approved for the State Budget Agency's payment, but have not been paid to the Commission. A summary of appropriations follows:

<u>Biennium</u>	<u>Funds Approved</u>	<u>Funds Allotted</u>	<u>Allotted Funds Drawn</u>	<u>Allotted Funds Remaining</u>
97-98	\$ 6,800,000	\$ 6,800,000	\$ 6,800,000	\$ -
99-00	<u>8,540,000</u>	<u>7,960,000</u>	<u>7,210,000</u>	<u>750,000</u>
	<u>\$ 15,340,000</u>	<u>\$ 14,760,000</u>	<u>\$ 14,010,000</u>	<u>\$ 750,000</u>

Net Assets: The Commission has classified certain net asset categories as follows:

- Board Designated - The Board of Commissioners has designated \$10,800,000 of unrestricted net assets for working capital, risk management, and the renewal and replacement of Port assets.
- Restricted - In 2004, The Commission received allocated grant funds of \$1,173,010 from the State of Indiana Counter-Terrorism and Security Council (CTASC) and the State Emergency Management Agency (SEMA) to support equipment for critical infrastructure protection at Indiana's three ports. This funding is provided by the U.S. Department of Homeland Security's Office of Domestic Preparedness (DHS/ODP) specifically for critical infrastructure protection.

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 2 – DEPOSITS AND INVESTMENTS

The following summarizes the Commission's policies on deposit and investment activity:

Investment Policy and Legal and Contractual Provisions Governing Cash Deposits: Indiana statute authorizes the Commission to invest in obligations of the U.S. Treasury and U.S. agencies and certificates of deposits, repurchase agreements, passbook savings, money market deposit accounts and negotiable order of withdrawal accounts of Indiana institutions. The Commission does not have specific investment policies on concentration of risk, custodial credit risk, interest rate risk, or foreign currency risk.

During the years ending December 31, 2005 and 2004, the Commission only held checking accounts and certificates of deposit accounts with Indiana financial institutions.

Custodial Credit Risk: The Commission maintains its cash, cash equivalents and investments in accounts that are fully insured either by Federal Depositary Insurance Corporation (FDIC) or by the Indiana Public Deposits Insurance Fund. Bank balances for checking accounts at December 31, 2005 and 2004 were \$5,373,399 and \$3,392,557, respectively.

Foreign Currency Risk: All Commission deposits and investment are denominated in United States currency.

Deposits and Investment Holdings: The Commission held the following cash, cash equivalents and investments at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents:		
Demand deposit checking	\$ 4,984,604	\$ 3,367,160
Certificates of deposit – less than 30 day maturity	1,000,000	2,175,000
Investments:		
Certificates of deposit	<u>4,514,914</u>	<u>5,000,195</u>
	<u>\$ 10,499,518</u>	<u>\$ 10,542,355</u>

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Land	\$ 14,523,433	\$ 14,523,433
Land improvements	36,457,675	35,402,383
Harbor improvements	18,811,342	18,811,342
Docks and mooring facilities	32,537,416	32,108,204
Buildings and structures	17,101,011	16,570,941
Machinery and equipment	169,018	169,018
Office furniture and equipment	1,088,305	599,488
Trucks and automobiles	650,263	622,702
Construction in progress	<u>1,607,432</u>	<u>1,172,342</u>
	122,945,895	119,979,853
Accumulated depreciation	<u>(48,447,697)</u>	<u>(46,009,103)</u>
	<u>\$ 74,498,198</u>	<u>\$ 73,970,750</u>

Activity from January 1, 2005 through December 31, 2005 included:

	<u>Fixed Assets</u>	<u>Construction in Progress</u>	<u>Total</u>	<u>Accumulated Depreciation</u>
Beginning balance	\$ 118,807,511	\$ 1,172,342	\$ 119,979,853	\$ (46,009,103)
Additions	2,530,952	2,916,540	5,447,492	-
Transfers	-	(2,481,450)	(2,481,450)	-
Depreciation	-	-	-	(2,438,594)
Ending balance	<u>\$ 121,338,463</u>	<u>\$ 1,607,432</u>	<u>\$ 122,945,895</u>	<u>\$ (48,447,697)</u>

Activity from January 1, 2004 through December 31, 2004 included:

	<u>Fixed Assets</u>	<u>Construction in Progress</u>	<u>Total</u>	<u>Accumulated Depreciation</u>
Beginning balance	\$ 111,543,316	\$ 3,999,686	\$ 115,543,002	\$ (43,623,519)
Additions	7,264,195	7,828,446	15,092,641	-
Transfers	-	(10,655,790)	(10,655,790)	-
Depreciation	-	-	-	(2,385,584)
Ending balance	<u>\$ 118,807,511</u>	<u>\$ 1,172,342</u>	<u>\$ 119,979,853</u>	<u>\$ (46,009,103)</u>

There were no material dispositions or sales of property and equipment during the years ended December 31, 2005 and 2004.

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 4 - CAPITAL AND OPERATING LEASES

Direct Financing Lease Receivable: During 1994, the Commission, as lessor, entered into a direct financing lease with a tenant for a building originally constructed by the Commission. Security agreements were obtained as collateral for the lease receivable. The Commission can repossess the structure if the customer defaults on the lease agreement. The components of the Commission's investment in the lease at December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Future minimum lease payments receivable	\$ 1,774,089	\$ 1,984,872
Unearned interest income	<u>549,708</u>	<u>642,515</u>
Long-term net investment in direct financing lease	<u>\$ 1,224,381</u>	<u>\$ 1,342,357</u>

The future minimum lease payments to be received for this lease in each of the five succeeding years and thereafter are as follows:

Year Ending December 31,

2006	\$ 210,783
2007	210,783
2008	210,783
2009	210,783
2010	210,783
2011- 2014	<u>720,174</u>
	<u>\$ 1,774,089</u>

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 4 – CAPITAL AND OPERATING LEASES (Continued)

Operating Leases Receivable: The Commission is engaged in leasing various properties to tenants under operating leases expiring over the next 1-31 years. The lease agreements include property rental and annual minimums on cargo tonnage at a tariff rate per ton based on the type of cargo shipped in and out of the ports. The approximate future minimum lease payments to be received in each of the five succeeding years and thereafter under noncancelable operating leases are as follows:

Year Ending December 31,

2006	\$ 4,167,491
2007	3,348,093
2008	2,789,889
2009	1,782,944
2010	1,371,300
2011 - 2015	3,879,264
2016 - 2020	3,878,334
2021 - 2025	2,975,854
2026 - 2030	1,655,072
2031 - 2035	1,251,012
2036 – 2038	<u>750,607</u>
	<u>\$ 27,849,641</u>

Operating Lease Obligations: The Commission, as lessee, leases office space under an operating lease that expires in December 2007. Rent expense was \$95,204 and \$88,319 for 2005 and 2004. The minimum annual future lease payments for the office space are \$100,838 for 2006 and 2007.

NOTE 5 - CONDUIT DEBT OBLIGATIONS

From time to time, the Commission has issued Port Revenue Bonds to provide assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are special obligations of the Commission payable from and secured solely by a pledge of debt service rentals. Principal and interest is payable from certain amounts payable to the Commission by the private-sector entity and the guarantor pursuant to the lease and guarantor agreement. Neither the Commission, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds beyond the resources provided by the related lease agreements. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 5 - CONDUIT DEBT OBLIGATIONS (Continued)

As of December 31, 2005 and 2004, Port Revenue Bonds outstanding were \$37,960,000 and \$29,385,000. As of December 31, 2005, there were four Port Revenue Bonds including the following:

<u>Project and Series</u>	<u>Maturity</u>	<u>Outstanding Principal</u>
Indiana Port Commission, Port Refunding Revenue Bonds, Series of 1992 (Cargill Project)	Term bond payment in 2012	\$ 21,950,000
Indiana Port Commission Port Revenue Bonds, Series 2002 (Kosmos Cement Company Project)	Term bond payment in 2020	5,500,000
Indiana Port Commission Port Revenue Bonds, Series 1994 (American Commercial Marine)	Serial payments through 2007 and term bond payments through 2014	1,935,000
Indiana Port Commission Port Revenue Bonds, Series 2005 (Berry Plastics)	Termination date is defined in trust indenture	<u>7,875,000</u>
		<u>\$37,260,000</u>

NOTE 6 - CONTINGENT LIABILITIES

In August 1996, a resident filed suit against the Commission and other defendants alleging that various structures erected in Lake Michigan, including, the breakwater which protects the Harbor at Burns Harbor/Portage, has caused erosion on the adjacent shoreline to an extent the plaintiff's shorefront property is being lost and other property has been damaged. The case was filed in the Porter County Superior Court. In addition, eighty-one other property owners had asserted similar claims. In April 1998, the court dismissed the action without prejudice for reasons that are not entirely clear. Outside Counsel is unable, in view of inherent uncertainties, to state an opinion whether additional litigation at a different level is either probable or remote, as such terms are defined in Paragraph 5 of the ABA Statement of Policy.

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 7 - DEFERRED COMPENSATION BENEFITS

The Commission offers two deferred compensation plans to all its employees under plans administered by the Public Employees Benefit Services Corporation (PEBSCO) and Indiana Deferred Compensation (IDC), and each is established in accordance with Internal Revenue Code Section 457. Employees are permitted to defer a portion of their salary until future years. Only upon terminations, retirement, death, or an unforeseen emergency is the deferred compensation available to an employee. Federal House Bill 3448 mandated that effective January 1, 2000, all existing Internal Revenue Code Section 457 plan assets must be held in a qualified trust for the benefit of participants and their beneficiaries.

Because these assets are held by a custodian, for the specific benefit of participants and their beneficiaries, they are not reflected in the financial statements and are free from claims of Indiana Port Commission creditors. The fair market value of PEBSCO investments held in custodial funds for participants was \$437,999 and \$411,605 at December 31, 2005 and 2004. The fair market value of IDC investments held in custodial funds for participants was \$217,298 and \$199,375 at December 31, 2005 and 2004.

NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF)

The Commission contributes to PERF, an agent multiple employee public employee retirement system, which acts as a common investment and administrative agent for state employees and employees of the various subdivisions of the State of Indiana.

All full-time employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) give the Commission the right to contribute and govern most requirements of the system, including the benefits, which vest after 10 years of service. Employees who have reached fifty years of age may receive retirement benefits with 15 years of service. An employee may receive benefits at age sixty-five with 10 years of service.

Employees are required to contribute 3% of their annual compensation to an annuity savings account. Effective July 1, 1986, legislation permits a PERF employer to make the employee contributions on behalf of the employee. The Commission elected to make, on behalf of covered employees, the employees' contribution that may be financed by the employer. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive a refund of this savings account.

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF)
(Continued)

All assets of the plans are held by and invested by PERF. Investments are mainly in obligations of the U.S. Government, federal agencies and in equity securities.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of PERF on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employees. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the plan. However, PERF performed an actuarial valuation of the Commission's plan as of June 30, 1998 which is included in the Annual Report of the Indiana Public Employees' Retirement Fund for state employees and employees of the various subdivisions of the State of Indiana.

There is no pension benefit obligation information or information on assets available for benefits at cost or any analysis of funding disclosed in this report because no such computation was performed by PERF for the Commission for the years ended December 31, 2005 and 2004.

Payroll for employees covered by the plan for the years ended December 31, 2005 and 2004 was \$1,680,536 and \$1,727,296. The total payroll for the same period was \$1,816,940 and \$1,730,652.

Pension Plan Information Relative to Contributions

<u>Year</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>	<u>Total Contributions</u>	<u>Annual Covered Payroll</u>	<u>Percentage Employer Contributions to Covered Payroll</u>
2000	\$ 41,917	\$ 41,917	\$ 83,834	\$ 1,397,219	6.00%
2001	\$ 32,867	\$ 43,822	\$ 76,689	\$ 1,460,738	5.25%
2002	\$ 27,645	\$ 47,391	\$ 75,036	\$ 1,579,693	4.75%
2003	\$ 33,497	\$ 50,246	\$ 83,743	\$ 1,687,807	4.96%
2004	\$ 64,774	\$ 51,819	\$ 116,593	\$ 1,727,296	6.75%
2005	\$ 67,222	\$ 50,416	\$ 117,638	\$ 1,680,536	7.00%

SUPPLEMENTAL SCHEDULES

INDIANA PORT COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2005

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grant Number</u>	<u>Cash Expenditures</u>	<u>Amounts awarded to Subrecipients</u>
U.S. Department of Homeland Security <i>Homeland Security Grant Program</i> Pass-through State Homeland Security Program	97.067	Unknown	\$ 1,051,381	\$ -
Total Federal Awards			<u>\$ 1,051,381</u>	<u>\$ -</u>

NOTE 1 - BASIS OF PRESENTATION

This schedule includes the federal awards activity of the Indiana Port Commission for the year then ended December 31, 2005 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



Crowe Chizek and Company LLC
Member Horwath International

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Members of the Indiana Port Commission
Indianapolis, Indiana

We have audited the financial statements of the Indiana Port Commission (Commission) as of and for the year ended December 31, 2005, and have issued our report thereon dated March 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

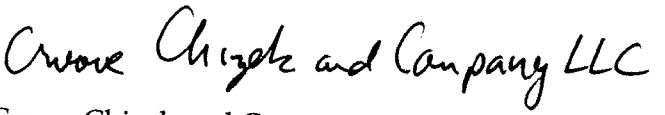
In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management and the Indiana State Board of Accounts and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

Indianapolis, Indiana
March 13, 2006



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Members of the Indiana Port Commission
Indiana Port Commission
Indianapolis, Indiana

Compliance

We have audited the compliance of the Indiana Port Commission with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The Association's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Association's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Indianapolis, Indiana
March 13, 2006

INDIANA PORT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2005

Section 1 Summary of Auditor's Results:

- a. An unqualified opinion was issued on the financial statements of the Indiana Port Commission for the year ended December 31, 2005.
- b. The audit did not disclose any noncompliance which is material to the financial statements.
- c. An unqualified opinion was issued to the Indiana Port Commission on their compliance for major programs.
- d. There were no audit findings required to be disclosed under OMB Circular A-133 Section 510(a).
- e. Major programs identified:

Department of Homeland Security

Homeland Security Grant Program (CFDA 97.067)

- f. Type A programs are defined as Federal programs with Federal Awards expended during the audit period exceeding \$300,000.
- g. The Commission has qualified as a low-risk auditee under OMB Circular A-133 Section 530.

Section 2. Findings related to the financial statements which are required to be reported in accordance with GAGAS:

None

Section 3. Findings and questioned costs for federal awards including audit findings as defined in OMB Circular A-133 Section 510(a):

None

There were no findings and questioned costs reported in the prior year for the Indiana Port Commission.

INDIANA PORT COMMISSION
SCHEDULE OF PORT INCOME FROM OPERATIONS,
Year ended December 31, 2005 with comparative totals for 2004

	2005					2004
	Burns Harbor Portage	Southwind Maritime Center	Clark Maritime Center	Central Support Services	IPC Total	IPC Total
Operating revenues						
Maritime services	\$ 895,870	\$ 615,383	\$ 426,162	\$ -	1,937,415	\$ 2,070,461
Facility rentals	2,895,429	626,355	558,171	-	4,079,955	3,754,241
Other user fees	187,789	36,465	194,958	1,008	420,220	415,460
FTZ operator fees	39,000	56,000	2,750	-	97,750	97,063
Other operating fees	<u>45,774</u>	<u>1,500</u>	<u>16,017</u>	<u>145,980</u>	<u>209,271</u>	<u>85,773</u>
Total operating revenues	4,063,862	1,335,703	1,198,058	146,988	6,744,611	6,422,998
Operating expenses						
Salaries and wages	382,802	292,722	243,896	950,647	1,870,067	1,783,152
Employee benefits, taxes and insurance	133,041	98,044	64,825	224,812	520,722	588,006
Employee travel	28,247	8,785	5,659	94,624	137,315	146,469
Temporarily hired services	-	-	448	38,928	39,376	6,205
Security services	223,272	335	21,845	-	245,452	133,862
Legal services	500	250	250	114,069	115,069	30,105
Accounting services	-	-	-	24,000	24,000	24,900
Computer services	-	-	-	18,685	18,685	30,969
Advertising and public relations	15,708	8,533	8,982	63,702	96,925	85,153
Association membership	26,814	3,856	1,461	28,672	60,803	56,778
Marketing outside services	-	-	-	-	-	38,714
Other professional services	(10,336)	(11,675)	(9,661)	130,718	99,046	196,747
Maintenance	102,097	66,414	34,509	7,132	210,152	253,650
Insurance	115,183	58,839	69,109	6,963	250,094	252,893
Utilities	63,618	31,438	8,388	403	103,847	91,252
Office supplies	32,682	13,132	10,998	71,668	128,480	139,556
Property rentals	-	-	-	95,204	95,204	87,869
Miscellaneous	<u>83</u>	<u>(17)</u>	<u>536</u>	<u>3,258</u>	<u>3,860</u>	<u>33,270</u>
Total operating expenses before net depreciation	1,113,711	570,656	461,245	1,873,485	4,019,097	3,979,550
Net depreciation	<u>1,393,372</u>	<u>587,532</u>	<u>412,847</u>	<u>44,863</u>	<u>2,438,594</u>	<u>2,385,584</u>
Total operating expenses	<u>2,507,083</u>	<u>1,158,188</u>	<u>874,072</u>	<u>1,918,348</u>	<u>6,457,691</u>	<u>6,365,134</u>
Income (loss) from operations	<u>\$ 1,556,779</u>	<u>\$ 177,515</u>	<u>\$ 323,986</u>	<u>\$ (1,771,360)</u>	<u>\$ 286,920</u>	<u>\$ 57,864</u>

INDIANA PORT COMMISSION
SCHEDULE OF ACTUAL OPERATING EXPENSES COMPARED TO BUDGET
Year ended December 31, 2005

	<u>Actual Expenses</u>	<u>Budgeted Expenses</u>	<u>Variance (Over) Under</u>
Salaries and benefits	\$ 2,390,789	\$ 2,540,076	\$ 149,287
Professional services	256,800	370,740	113,940
Marketing and advertising	96,925	137,640	40,715
Insurance	250,094	227,100	(22,994)
Facility Rental	95,204	103,020	7,816
Maintenance and utilities	313,999	278,420	(35,579)
Other office and administrative expenses	<u>615,286</u>	<u>673,680</u>	<u>58,394</u>
Total operating expenses	<u>\$ 4,019,097</u>	<u>\$ 4,330,676</u>	<u>\$ 311,579</u>